



COMPTROLLER

UNDER SECRETARY OF DEFENSE
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WASHINGTON, DC 20301-1100

NOV 21 2007

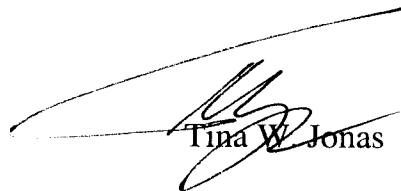
MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
CHAIRMAN OF THE JOINT CHIEFS OF STAFF
COMMANDERS OF THE COMBATANT COMMANDS
INSPECTOR GENERAL OF THE DEPARTMENT OF
DEFENSE
DIRECTOR, ADMINISTRATION AND MANAGEMENT
DIRECTORS OF THE DEFENSE AGENCIES

SUBJECT: Fiscal Year (FY) 2008 Guidance for the Preparation of the Statement of Assurance

Each Department of Defense (DoD) Component must submit to the Secretary of Defense an annual Statement of Assurance (SOA) signed by the Component's Head (or Principal Deputy). This is a long-standing requirement of the Office of Management and Budget Circular A-123, "Management's Responsibility for Internal Control," which complies with the "Federal Managers' Financial Integrity Act (FMFIA) of 1982." Your SOAs for FY 2008 must be received no later than August 29, 2008.

The annual guidance for preparing your FY 2008 SOA is attached. The guidance is also available on our website at <http://www.defenselink.mil/comptroller/micp/index.html>. Part I of the guidance provides instructions for preparing the Statement of Assurance on the effectiveness of internal controls for overall operations and financial reporting. Part II explains the scorecard criteria for the Statement of Assurance in FY 2008.

For more information, please contact Ms. Peggy Johnson, the DoD Managers' Internal Control Program Manager, by email at peggy.johnson@osd.mil or commercial (703) 602-0300 ext. 112, DSN 332-0300 ext. 112.



Tina W. Jonas

Attachments:
As stated

PART I

GUIDANCE

FOR PREPARATION OF THE

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA)

ANNUAL STATEMENT OF ASSURANCE

FISCAL YEAR 2008

PART I

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Department of Defense
Requirements for the Consolidated Annual Statement of Assurance
(FMFIA Overall Operations and FMFIA Over Financial Reporting)

In accordance with the Department of Defense (DoD) Instruction 5010.40, “Managers’ Internal Control Program Procedures,” the DoD Federal Managers’ Financial Integrity Act (FMFIA) Overall Operations Statement of Assurance will disclose material weaknesses identified through an assessment that tests the effectiveness of the Component’s internal controls for the overall program, administrative, and operational activities and describe the plans and schedules to correct those weaknesses. See guidelines beginning on page 5 in Part I of this annual guidance.

Only the Department of Defense (DoD) Components which have Financial Statement Reporting Entities (FSREs) that are listed on pages 11 and 12 of this annual guidance, will also provide the FMFIA Over Financial Reporting Statement of Assurance on the effectiveness of internal control over financial reporting for each FSRE as a subset to the FMFIA Overall Operations Statement of Assurance. Detailed instructions of how to conduct an assessment of internal controls over financial reporting, also known as Appendix A of the OMB Circular A-123, are available under separate cover which is posted on the website: <http://www.defenselink.mil/comptroller/micp/index.html>. **The Head (or Principal Deputy) of the Component must sign the statement.** This signature authority may not be delegated below the DoD Component principal deputy.

Submission Date: DoD Component Heads must submit the Statement(s) of Assurance for both the FMFIA Overall Operations and the FMFIA Over Financial Reporting, as required, no later than August 29, 2008. ABSOLUTELY NO EXTENSIONS TO THE SUSPENSE DATE WILL BE GIVEN.

The DoD Component Heads must submit Statements of Assurance following the format and content requirements of this annual guidance. Each Component will provide both electronic and hard copies of its fiscal year (FY) 2008 Statement(s) of Assurance. The electronic version should be emailed to peggy.johnson@osd.mil. **The electronic version of each Component’s Statement of Assurance is required by August 29, 2008.** The mailing address is:

Office of the Under Secretary of Defense (Comptroller)
Deputy Chief Financial Officer
Room 3B287, Pentagon
Washington, DC 20301-1100
Attention: Managers’ Internal Control Program Manager

Each Component shall submit **its original (paper) signed copy** of the Statement of Assurance directly to the Secretary of Defense **no later than August 29, 2008.** **ABSOLUTELY NO EXTENSIONS TO THE SUSPENSE DATE WILL BE GIVEN.**

The statement must have the signature of either the Head (or principal deputy) of the DoD Component. The mailing address is:

The Honorable Robert M. Gates
Secretary of Defense
1000 Defense Pentagon
Washington, DC 20301-1000

In addition, information copies of the Statement of Assurance from the Combatant Commands shall be furnished to the Chairman of the Joint Chiefs of Staff. The mailing address is:

Admiral Michael Mullen, USN
Chairman of the Joint Chiefs of Staff
9999 Joint Staff Pentagon
Washington, DC 20318-9999

Since FY 2003, the Department has used a scorecard to grade the performance of the DoD Components' Statements of Assurance. The scorecard grades five categories: 1) report timeliness, 2) format to include accuracy and completeness of the report, 3) extent of Component-wide program execution, 4) extent of Component-wide training conducted, and 5) weakness reporting (full disclosure and prompt resolution of previously reported weaknesses). The scorecard criteria for FY 2008 are contained in Part II of this annual guidance.

Timely reporting is essential. Late statements jeopardize the entire Department's ability to meet the Office of Management and Budget deadlines. Part II, page 3 of 5, provides scorecard criteria for timeliness.

Component Heads are encouraged to submit their Statement of Assurance on or in advance of the suspense date of August 29, 2008. Receipt of the Statements of Assurance by close of business August 22, 2008 will receive an extra credit score in the timeliness category. See Part II, for more information on scorecard criteria.

FMFIA Overall Operations Statement of Assurance Guidelines

The FMFIA Overall Operations Statement of Assurance will disclose material weaknesses identified by assessments of the effectiveness and efficiency of operations and compliance with applicable laws and regulations for the overall program, administrative, and operational activities. This statement will describe the plans and schedules to correct any material weaknesses reported.

The statement is effective ***as of the date the statement is signed***. Material weaknesses should not be reported as closed until all corrective actions have been implemented and a validation of closure accomplished (see last paragraph of page 15 of 50). If a material weakness is expected to be corrected within the 4th Quarter (Qtr) of FY 2008 but all actions are not completed when the statement is signed, the DoD Component Head must report the material weakness as still ongoing, and reschedule the completion in the 1st, 2nd, 3rd or 4th Quarter, FY 2009. In order to meet projected milestones, reporting entities should use caution in projecting the 4th quarter as the completion date if the entity routinely concludes the Statement of Assurance process in the 3rd quarter.

The list of DoD Components required to submit the FMFIA Overall Operations Statement of Assurance is on page 8 in Part I of this annual guidance. Each FMFIA Overall Operations Statement of Assurance submission shall consist of the following which provides:

1. A MEMORANDUM, **addressed to the Secretary of Defense and signed by the Head of the DoD Component, or the Principal Deputy**, providing the assessment by the Component's senior leader as to whether there is reasonable assurance that the Component's internal controls are in place, operating effectively, and being used for the overall programs, administrative and operational activities to include the effectiveness and efficiency of operations and compliance with applicable laws and regulations. If the DoD Component is identified as having a FSRE [See Table 3, pages 11 and 12], the DoD Component must also follow the guidelines provided beginning on page 38 of 50. Under the Office of Management and Budget (OMB) Circular A-123, "Management's Responsibility for Internal Control," December 21, 2004, the FMFIA Overall Operations Statement of Assurance must take one of the following three forms (see sample memo on pages 13 and 14 of 50 in Part I of this annual guidance):

a. **An unqualified Statement of Assurance** (reasonable assurance with no material weaknesses reported). Each unqualified statement shall provide a firm basis for that position, which the Head (or principal deputy) will summarize in the cover memorandum. TAB A will contain a more extensive explanation of how the assessment helped justify the Head (or principal deputy) of the Component's assertion of an unqualified statement.

b. **A qualified Statement of Assurance** (reasonable assurance with exception of one or more material weakness(es) noted). The cover memorandum must cite the material weaknesses in internal controls that preclude an unqualified statement. TAB B will fully describe all weaknesses, the corrective actions being taken and by whom, and the projected dates of correction for each action.

c. A Statement of No Assurance (no reasonable assurance because no assessments conducted or the noted material weaknesses are pervasive). The Head (or principal deputy) shall provide an extensive rationale for this position.

2. TAB A: A description of how the DoD Component conducted its assurance evaluation for the FMFIA Overall Operations only and, based on that evaluation, a statement describing how the Head (or principal deputy) achieved this level of reasonable assurance (see detailed discussion on pages 18-21 in Part I of this annual guidance). In addition, TAB A should include a brief summary of the most significant actions taken by the DoD Component during FY 2008 to strengthen specific internal controls, the MIC program execution, the internal control training, and other improvements. Examples of other improvements are the protection of government assets, efficiency of operations, conservation of resources, and improvements to customer needs.

3. TAB B-1: A list of the titles of all uncorrected and corrected material weaknesses. See pages 23 and 24 in Part I of this annual guidance.

4. TAB B-2: Detailed narrative descriptions of all uncorrected material weaknesses including the plans and schedules for the corrective action(s). Include those identified during the current year and those disclosed in prior years with updated information. Narratives for updating material weaknesses identified in prior years will explain the rationale for any changes to previously reported corrective milestone dates. See pages 28 and 29 in Part I of this annual guidance.

5. TAB B-3: A brief narrative describing the material weaknesses corrected in the current year, including the most significant actions taken to correct the weakness. This section will include all material weaknesses corrected in FY 2008 that were identified in either current or prior year(s). For each corrected material weakness, the last milestone will describe the method used to validate the corrective action to include a certification that the corrective action has effectively resolved the weakness. See pages 31 and 32 in Part I of this annual guidance.

6. TAB C: **Used only by the Director of Administration and Management in reporting “overall operations systemic weaknesses” for the Office of the Secretary of Defense Statement of Assurance.** *“Overall operations systemic weaknesses” are defined as those weaknesses materially affecting internal management controls that warrant reporting to a higher level. Overall operations systemic weaknesses usually affect multiple DoD Components or are reported by the Principal Staff Assistant as pervasive problems across the DoD. Overall operations systemic weaknesses include systemic weaknesses for all functions **EXCEPT** those related to financial reporting assessed under the oversight of the Senior Assessment Team. The list of overall operations systemic weaknesses reported by the Department in the FY 2007 DoD Statement of Assurance are on pages 33 and 34 in Part I of this annual guidance. The OSD Principal Staff Assistants must identify and / or report to the Director of Administration and Management the status of “overall operations systemic weaknesses” that fall within their area of functional responsibility. The Director of*

Administration and Management will then consolidate them and report their status in the Office of the Secretary of Defense Statement of Assurance using the weakness status format as described in TAB B on pages 22-37 in Part I of this annual guidance. In FY 2008, General Personal Property (GPP) is redefined as a Financial Reporting weakness. Therefore, the OSD Principal Staff Assistant will transfer this weakness. This should be accomplished by “closing” the GPP in the overall operations, TAB C, stating in the weakness status format at the last milestone of the corrective actions, “*The reporting status is being transferred to the DoD Senior Assessment Team.*” See example of format on page 37 of 50 in Part I of this annual guidance. Then the PSA should report GPP weakness as a Financial Reporting weakness accordingly.

TABLE 1
DoD Components Required to Submit
FY 2008 Annual Statement of Assurance to Secretary of Defense

FMFIA “Financial Reporting” ONLY

DoD Financial Reporting (under the DoD Senior Assessment Team)

FMFIA “Overall Operations” ONLY

Joint Staff
United States European Command
North American Aerospace Defense / United States Northern Command
United States Transportation Command
United States Pacific Command
United States Southern Command
United States Joint Forces Command
United States Central Command
United States Strategic Command
Inspector General, Department of Defense
Defense Business Transformation Agency
Defense Security Cooperation Agency
National Defense University
Pentagon Forces Protection Agency
Uniformed Services University of the Health Sciences

FMFIA “Overall Operations ” and “Financial Reporting”

Office of the Secretary of Defense
Department of the Army
Department of the Navy (Includes Marine Corps)
Department of the Air Force
United States Special Operations Command
Defense Advanced Research Projects Agency
Defense Commissary Agency
Defense Contract Audit Agency
Defense Contract Management Agency
Defense Finance and Accounting Service
Defense Information Systems Agency
Defense Intelligence Agency
Defense Logistics Agency
Defense Security Service
Defense Threat Reduction Agency
Missile Defense Agency
National Geospatial - Intelligence Agency
National Security Agency / Central Security Service

TABLE 2
DoD Agencies Required to Coordinate through Principal Staff Assistants
Prior to Reporting to Secretary of Defense

Beginning FY 2008, DoD Agencies should report through their appropriate Principal Staff Assistants prior to reporting to the Secretary of Defense. To expedite a smooth transition and help the DoD Agencies to complete the coordination process, the Statements of Assurance should be provided to the PSA Managers' Internal Control Program Managers on or before August 1, 2008. The PSA MICP Managers will then assist in getting the Statement of Assurance through the PSA. However, it is the responsibility of the Agencies to meet suspenses and to keep track of the Statement of Assurance through the entire process until final submission to the Secretary of Defense.

Principal Staff Assistants and Defense Agencies

Under Secretary of Defense (Acquisition, Technology and Logistics)

- Defense Logistics Agency
- Defense Threat Reduction Agency
- Defense Advanced Research Projects Agency
- Missile Defense Agency
- Defense Business Transformation Agency
- Defense Contract Management Agency

Under Secretary of Defense (Policy)

- Defense Security Cooperation Agency

Under Secretary of Defense (Comptroller)

- Defense Contract Audit Agency
- Defense Finance and Accounting Service

Under Secretary of Defense (Personnel and Readiness)

- Defense Commissary Agency
- Uniformed Services University of the Health Sciences

Under Secretary of Defense (Intelligence)

- National Geo-Spatial Intelligence Agency
- National Security Agency/Central Security Service
- Defense Intelligence Agency
- Defense Security Service

TABLE 2 (cont)
DoD Agencies Required to Coordinate through Principal Staff Assistants
Prior to Reporting to Secretary of Defense

Assistant Secretary of Defense (Networks and Information Integration)
Defense Information Systems Agency

Director, Administration and Management
Pentagon Force Protection Agency

Note: The National Defense University will continue to report directly to the Secretary of Defense without prior coordination as specified by their higher headquarters at the Joint Staff.

TABLE 3
DoD Components and Their Financial Statement Reporting Entities
Required to Submit FY 2008 FMFIA Over Financial Reporting Process
Statement of Assurance to Secretary of Defense

Table 3 lists the 17 Components which must submit, as a subset of the FMFIA Overall Operations Statements of Assurance to the Secretary of Defense, the FMFIA Over Financial Reporting Statements of Assurance for each Financial Statement Reporting Entity (FSRE). The submission is based on the review performed by their FSRE according to, "Annual Guidance For Documenting and Preparing the Statement of Assurance on Internal Control Over Financial Reporting Process" dated October 24, 2007, which is available at: <http://www.defenselink.mil/comptroller/micp/index.html>. The format for preparing the FMFIA Over Financial Reporting Statement of Assurance is available beginning on page 13 of this document.

Table 3	
Component	Financial Statement Reporting Entity (FSRE) and Its Parent Subcomponent
1. Office of the Secretary of Defense (OSD) (Director of Administration and Management for OSD)	1. Under Secretary of Defense (Comptroller) for DoD-wide Compilation
	2. Under Secretary of Defense (Acquisition, Technology & Logistics)
	3. Military Retirement Trust Fund (MRTF) General Fund (GF)/ Under Secretary of Defense (Personnel and Readiness (P&R))
	4. Medicare Eligible Retirement Health Care Fund (MERHCF) GF/ Assistant Secretary of Defense (Health Affairs)/ Under Secretary of Defense (P&R)
	5. Defense Health Program (DHP) GF/ Assistant Secretary of Defense (Health Affairs)/ Under Secretary of Defense (P&R) / Service Medical Activity (SMA)
	6. Defense Health Program (DHP) GF/ Assistant Secretary of Defense (Health Affairs)/ Under Secretary of Defense (P&R) / Tricare Management Activity (TMA))
	7. Chemical Biological and Defense Program (CBDP) GF/ Deputy Under Secretary of Defense (Laboratories and Basic Sciences)/ Under Secretary of Defense (Acquisition, Technology and Logistics (AT&L))
2. Army	8. Army GF
	9. Army Working Capital Fund (WCF)
	10. United States Army Corps of Engineers (USACE)
3. Navy (includes Marine Corps)	11. Navy GF
	12. Navy WCF
	13. Marine Corps GF
4. Air Force	14. Air Force GF
	15. Air Force WCF
5. United States Special Operations Command (USSOCOM)	16. USSOCOM GF

Table 3 Continued	
Component	Financial Statement Reporting Entity (FSRE) and Its Parent Subcomponent
6. Defense Advance Research Projects Agency (DARPA)	17. DARPA GF
7. Defense Commissary Agency (DECA)	18. DECA GF
	19. DECA WCF
8. Defense Contract Audit Agency (DCAA)	20. DCAA GF
9. Defense Finance and Accounting Service (DFAS)	21. DFAS GF
	22. DFAS WCF
10. Defense Information Systems Agency (DISA)	23. DISA GF
	24. DISA WCF
11. Defense Intelligence Agency (DIA)	25. DIA GF
12. Defense Logistics Agency (DLA)	26. DLA GF
	27. DLA WCF
13. Defense Security Service (DSS)	28. DSS GF
14. Defense Threat Reduction Agency (DTRA)	29. DTRA GF
15. Missile Defense Agency (MDA)	30. MDA GF
16. National Geo-Spatial Intelligence Agency (NGA)	31. NGA GF
17. National Security Agency/ Central Security Service (NSA/CSS)	32. NSA/CSS GF

FMFIA “OVERALL OPERATIONS” STATEMENT OF ASSURANCE WHEN NO STATEMENT OF ASSURANCE “OVER FINANCIAL REPORTING” IS REQUIRED

Sample

MEMORANDUM FOR THE SECRETARY OF DEFENSE (Components must address the cover memorandum to the Secretary of Defense and follow the format for the memorandum as prescribed. If addressed to other than the Secretary of Defense, the memorandum may be returned for revision. Revisions risk delays that could adversely affect the accuracy and timeliness of the Secretary of Defense Statement of Assurance to the OMB, the Congress, and the President.)

SUBJECT: Annual Statement Required under the Federal Managers’ Financial Integrity Act (FMFIA) of 1982

As **(title of Component Head or Principal Deputy)** of **(name of Component)**, I recognize that the **(name of Component’s)** management is responsible for establishing and maintaining effective internal controls to meet the objectives of the Federal Managers’ Financial Integrity Act (FMFIA). I am able to provide **[the statement must take one of three forms: “an unqualified statement of reasonable assurance” (no material weaknesses being reported); “a qualified statement of reasonable assurance” (one or more material weaknesses being reported); or “no assurance” (no processes in place to assess the internal controls or pervasive material weaknesses that cannot be assessed)]** that the **(name of Component)** internal controls meet the objectives of FMFIA overall programs, administrative, and operations **(if qualified)** with the exception of **(number)** material weakness(es) described in TAB B. These material weaknesses were found in the internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of the date of this memorandum. Other than the material weaknesses noted in TAB B, the internal controls were operating effectively and no other material weaknesses were found in the design or operation of the internal controls.

Component’s statement will include the following paragraph only if the Component identified material weaknesses, either in the current fiscal year or past fiscal years:

The **[Component]** FMFIA overall operations evaluation did identify material weaknesses. TAB B-1 is a list of material weaknesses that still require corrective action and those corrected during the period. TAB B-2 is an individual narrative for each uncorrected material weakness listed in TAB B-1. **(Include the previous two sentences if your Component has any uncorrected material weaknesses.)** TAB B-3 is an individual narrative for each material weakness corrected during the period. **(Include the previous sentence if your Component corrected any material weaknesses during the past fiscal year.)**

[(The statement must include the following.) TAB A provides additional information on how the **(name of Component)** conducted the assessment of internal controls for the FMFIA overall operations, which was conducted according to OMB Circular A-123, Management’s Responsibility for Internal Control. In addition, TAB A provides a summary of the significant accomplishments and actions taken to improve Component internal controls during the past year.]

(Signature of Component Head or Principal Deputy)

[An example of a cover memorandum demonstrating a FMFIA “Overall Operations” Statement of Assurance that also includes one or more assurance statements for the FMFIA “Over Financial Reporting” begins on page 40.]

Conceptualizing a Material Weakness in the FMFIA Overall Operations

Each manager is responsible for establishing internal controls in his or her area of responsibility and continuously assessing the effectiveness of the internal controls to meet intended mission objectives. DoD Components are expected to conduct at minimum, annual independent assessments that may identify internal control weaknesses; however, management should avoid duplication of ongoing reviews or inspections of internal controls. **Continuous monitoring, supplemented by periodic assessments, must be documented and maintained in enough detail to support management's assertion as to the effectiveness of internal controls.** In addition, management is required to keep and be able to provide a documented audit trail of assessments annually.

Managers should identify deficiencies in internal controls. A reportable condition exists when one or more deficiencies in the design or operation of an internal control that management believes are significant could adversely affect the organization's ability to meet its mission objectives. The organization will track reportable conditions internally. A reportable condition that the DoD Component Head determines to be significant enough to be reported outside the Component will be considered a material weakness and included in the FMFIA Overall Operations Statement of Assurance. The designation of a material weakness is a management judgment that should be based on relative risk. Although the appearance of a weakness in an audit report does not necessarily warrant reporting it as a material weakness in the Component's FMFIA Overall Operations Statement of Assurance, **OMB Circular A-123 states that serious consideration should be given to the views of the Inspector General.** The bottom line is that the weakness is considered material if the Head (or principal deputy) of the Component determines to include the weakness in the FMFIA Overall Operations Statement of Assurance submitted to the Secretary of Defense. Therefore, the decision of whether a weakness is "material" is leadership's judgment except for "significant deficiencies" that were identified under the Federal Information Security Management Act (FISMA); these must be reported as material weaknesses in the FMFIA Overall Operations Statement of Assurance.

Management should avoid using "areas of concern" or any other classifications to report material weaknesses. Only documented material weaknesses that follow the format prescribed in TAB B on pages 22-32, will be recognized by the Department as reported material weaknesses. Any issues classified as "areas of concern" will not be deemed as material weaknesses, but rather for managerial information purposes only.

Once a material weakness is reported by a DoD Component, there must be continuous status reports provided annually until the weakness is resolved with a final corrective status being the validation technique used as determined by the reviewing entity that identified the material weakness. The validation may either be a documented independent audit review or achieving a pre-established and reported metric. When a documented transfer or elimination of function(s) has occurred, the losing DoD Component can report the material weakness as "Complete," provided that the Component has no remaining actions to fulfill in resolving the material weakness. The gaining Component should seriously consider reporting any material weakness that existed prior to the transfer.

An overall operations systemic weakness is a material weakness that is reported by more than one Component or reported by the Principal Staff Assistant which has the responsibility. Once reported, the same material or systemic weakness should never reappear as a new, re-titled weakness in future FMFIA Overall Operations Statements of Assurance even when a subsequent audit report has revealed new instances of the same problem. Instead, the original weakness should reflect that it was completed. The new instance should retain the same name as the original weakness but show a new date identified. For example, consider a material or systemic weakness that a Component originally identified in FY 2000 and corrected in FY 2003. Then in FY 2008, audit reports identify related problems and the Component wants to report it as a new material weakness in FY 2008. The material weakness should retain the same title as the original, but the “Year Identified” date would now appear as FY 2008, not FY 2000.

Weaknesses that slip year after year and do not meet the targeted correction dates reflect negatively on the Department’s commitment to process improvement. Therefore, Components should resolve material weaknesses as quickly as possible and ensure that the targeted correction dates are met.

Components should be careful in defining and setting the scope of the material weakness problem. For example, if the deficiency is due to inadequate controls for effectively implementing the equal employment opportunity (EEO) requirements, the reported weakness and milestones should address that problem. It is incorrect to define the problem in a broad category such as the civilian hiring practices, and then include corrective actions that narrowly address the deficiency in the EEO requirements. In this case, the definition and specification of the weakness scope is too broad.

Sometimes it is preferable to address several related problems in one weakness statement. However, Components should be cautious when defining a weakness. For example, in addition to the hypothetical weakness stated above, a Component might have concluded that there are other control problems related to civilian hiring practices. Combining several problems and reporting one weakness under a broad statement that the Component will correct deficiencies in civilian hiring practices may overstate the dimensions of the weakness. Confine the weakness statement to the scope of the specific problem(s) originally addressed. Consolidation of like weaknesses into a single comprehensive weakness is encouraged only when appropriate conditions apply. Avoid bundling a number of related weaknesses or newly identified problems for the principal purpose of reducing the number of material weaknesses reported. Weaknesses defined too broadly are very difficult to resolve and usually result in repeatedly missed targeted correction dates.

For FY 2008 as in the past several years, the Department will not require Components to report Section 4 nonconformance weaknesses. Instead, the Department will develop the level of assurance for the FMFIA Section 4 concerning system conformance based on the Department’s progress made in complying with the Federal Financial Management Improvement Act as reported by the Defense Business Transformation Agency and the Under Secretary of Defense (Comptroller).

Reporting the same material weakness, i.e., same title, same description, as “corrected” and “ongoing” or “new” in the same year is not acceptable. Doing so, gives the appearance of resolving more material weaknesses than is accurate. The entire Statement of Assurance will be returned for a rewrite if this occurs and the DoD Component will not receive credit for delivering the Statement of Assurance until resubmitted.

DESCRIPTION OF THE CONCEPT OF REASONABLE ASSURANCE AND HOW THE EVALUATION WAS CONDUCTED

(TAB A)

This section describes the concept of reasonable assurance and the evaluation process used. In TAB A, use the following template to help describe the concept of reasonable assurance:

The **(name of Component)** senior management evaluated the system of internal accounting and administrative controls, in effect during the fiscal year as of the date of this memorandum, according to the guidance in Office of Management and Budget (OMB) Circular No. A-123, "Management's Responsibility for Internal Control," December 21, 2004. The OMB guidelines were issued in conjunction with the Comptroller General of the United States, as required by the "Federal Managers' Financial Integrity Act of 1982." Included is an evaluation of whether the system of internal accounting and administrative control for the **(name of Component)** is in compliance with standards prescribed by the Comptroller General. **NOTE: If a self-evaluation of the system of internal accounting and administrative control was not conducted, or the evaluation was insufficient when compared to the guidelines, indicate that fact and provide an explanation.**

The objectives of the system of internal accounting and administrative control of the **(name of Component)** are to provide reasonable assurance that:

The obligations and costs are in compliance with applicable law;

Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and

Revenues and expenditures applicable to agency operations are properly recorded and accounted for, to permit the preparation of reliable accounting, financial and statistical reports and to maintain accountability over the assets.

The evaluation of internal controls extends to every responsibility and activity undertaken by **(name of Component)** and applies to program, administrative and operational controls. Furthermore, the concept of reasonable assurance recognizes that (1) the cost of internal controls should not exceed the benefits expected to be derived and (2) the benefits include reducing the risk associated with failing to achieve the stated objectives. Moreover, errors or irregularities may occur and not be detected because of inherent limitations in any system of internal accounting and administrative control, including those limitations resulting from resource constraints, congressional restrictions, and other factors. Finally, projection of any system evaluation to future periods is subject to risk that procedures may be inadequate because of changes in conditions, or that the degree of compliance with procedures may deteriorate. Therefore, this statement of reasonable assurance is provided within the limits of the preceding description.

The **(name of Component)** evaluated the system of internal control in accordance with the guidelines identified above. The results indicate that the system of internal accounting and administrative control of the **(name of Component)** in effect during the fiscal year **(year, i.e.,**

2008) as of the date of this memorandum, taken as a whole, **(complies/does not comply)** with the requirement to provide reasonable assurance that the above mentioned objectives were achieved. This position on reasonable assurance is within the limits described in the preceding paragraph.

Using the following process for conducting the evaluation, the **(name of Component)** evaluated its system of internal accounting and administrative control and maintains sufficient documentation to support its evaluation and level of assurance. Additionally, the **(name of Component)** maintains an audit trail of the evaluation process. **[Below is a list of items the Component should consider for explaining how the Component conducted the evaluation.]**

1. The progress achieved in institutionalizing internal controls (i.e., a brief description of how the Component Managers' Internal Control (MIC) Program is applied or reviewed for compliance also could be used here if it has already been fully implemented);
2. Any improvements to MIC Program coverage (address the expected benefits and related costs of control procedures using estimates and managerial judgment);
3. A description of the problems encountered in implementing the MIC Program;
4. Other considerations (e.g., resource constraints, technological bottlenecks, and operational or mission considerations) affecting the MIC Program;
5. Any deviations from the process as outlined in the OMB Circular A-123;
6. Any special concerns addressed in reports by the Inspector General (IG), DoD or Component audit, investigation, inspection and/or internal review organizations regarding MIC Program progress, needs, and/or problems;
7. Methods, mechanisms, or techniques employed in the discovery or execution phases of the program. The following are examples of methods, mechanisms, or techniques:
 - a. MIC Program weakness tracking system (number of weaknesses and milestones);
 - b. Component Inspector General or Audit Service findings;
 - c. Reports of Component internal reviews and inspections;
 - d. IG, DoD reports and reviews;
 - e. Most significant MIC Program accomplishments achieved during FY 2008;
 - f. MIC Program training;

- g. MIC Program performance standards (e.g., such as those found in the GAO Internal Control Management and Evaluation Tool, available at website address: www.gao.gov/govaud/ybk01.htm);
- h. Government Accountability Office (GAO) reports and reviews;
- i. Review of Office of the Secretary of Defense (OSD) Functional Proponent Proposals (e.g., systemic weaknesses);
- j. Information Technology initiatives;
- k. MIC Program references in directives, regulations, and other guidance;
- l. Congressional reviews and hearings;
- m. Command or other subordinate organization "Letters of Assurance;"
- n. Productivity statistics;
- o. Defense Regional Interservice Support studies;
- p. Management reviews in other functional areas (e.g., procurement, communications and intelligence. financial, or environmental);
- q. Quality Assurance reviews;
- r. "Hot Line" reports.
- s. Evidence that assessments have been conducted by including examples of deficiencies found that do not warrant reporting as material weaknesses and the actions taken or planned to resolve these deficiencies. Whenever possible, provide quantitative accomplishments, e.g., "reduced from 12 days to 4 days." Use the following format:

Description of Issue: Reconciliation of the Government Purchase Card Accounts.

Accomplishments:

- By standardizing processes, limiting the number of purchase cardholders, and using automated tools, the elapsed time from billing period closing to forwarding the account reconciliation to the Defense Finance and Accounting Service (DFAS) has been reduced from 12 days to 4 days.

- The reduction of process time enables DFAS to pay the U.S. Bank within established parameters, thus preventing payment of interest and allowing the agency to earn rebates.
- Improvements in oversight capabilities has drastically reduced the agency's delinquency rates and increased rebate dollars.
- FY 2008 1st Quarter rebates totaled \$124,000 compared to FY 2007 1st Quarter of \$65,000.

MATERIAL WEAKNESS / CORRECTIVE ACTIONS

(TAB B)

(Also for TABs C, D, E, F and so on, for Systemic Weakness(es) format as well as FMFIA Over Financial Reporting (Material Weakness(es) format)

This section presents internal control weakness information in three subset tabs:

1. A listing of the titles of all uncorrected and corrected material weaknesses as of the conclusion of the current period along with actual and projected correction dates. (TAB B-1)
2. Narratives for the uncorrected material weaknesses identified in the summary listing. (TAB B-2)
3. Narratives for all material weaknesses corrected during the current period. (TAB B-3)

The three subset tabs are illustrated on the following pages.

LISTS OF ALL UNCORRECTED AND CORRECTED MATERIAL WEAKNESS(ES)

(TAB B-1)

(Also for TABs C-1, D-1, E-1, F-1 and so on, for Systemic Weakness(es) format as well as FMFIA Over Financial Reporting (Material Weakness(es) format)

Components should prepare this section after completing both TABs B-2 and TAB B-3 since it is a summary listing of TAB B-2 and TAB B-3 weakness titles and correction dates. Divide the material weakness titles into three groupings: Uncorrected Weaknesses Identified During the Period (the current fiscal year); Uncorrected Weaknesses Identified During Prior Periods; and Corrected Weaknesses Identified During All Periods.

Uncorrected Weaknesses Identified During the Period: (List by DoD functional category, in the order provided on pages 48-50 in Part I of this annual guidance.)

Quarter (QTR) and Fiscal Year (FY)		
<u>Title</u>	<u>Targeted Correction Date</u>	<u>Page #</u>
(1)	(4)	(5)

Uncorrected Weaknesses Identified During Prior Periods: (List by DoD functional category, in the order provided on pages 48-50 in Part I of this annual guidance.)

<u>Title</u>	Year First Reported	<u>Correction QTR & FY Date</u>		<u>Page #</u>
		Per Last Annual Statement	Per This Annual Statement	
(1)	(2)	(3)	(4)	(5)

Corrected Weaknesses Identified During All Periods: (List by DoD functional category, in the order provided on pages 48-50 in Part I of this annual guidance.)

<u>Title</u>	Year First Reported	<u>Page #</u>
	(2)	
(1)	(2)	(5)

NOTES:

- (1) Titles should be identical to those found on the material weakness narratives provided in TAB B-2 or B-3.
- (2) Use the fiscal year in which this weakness was first reported.
- (3) This is the **quarter and fiscal year** noted as the targeted date for correction of the material weakness in the Component's FY 2007 Annual Statement.
- (4) This is the **quarter and fiscal year** noted as the targeted date for correction of the material weakness in the Component's FY 2008 Annual Statement.
- (5) The page number is that of the first page of the material weakness narrative as found in TAB B-2 or B-3.

TAB B-1 EXAMPLE

(TAB B-1)

LISTS OF ALL UNCORRECTED AND CORRECTED MATERIAL WEAKNESSES

Uncorrected Weaknesses Identified During the Period:

<u>Title</u>	<u>Quarter (QTR) and Fiscal Year (FY) Targeted Correction Date</u>	<u>Page #</u>
<u>Category: Communications and/or Intelligence and/or Security</u> Lack of Security Policy	2 nd Qtr, FY 2010	TAB B-2-1

Uncorrected Weaknesses Identified During Prior Periods:

<u>Title</u>	<u>Year First Reported</u>	<u>Correction Qtr & FY Date</u>		<u>Page #</u>
		<u>Per Last Annual Statement</u>	<u>Per This Annual Statement</u>	
<u>Category: Contract Administration</u> Contract Administration of Service Contracts	FY 2003	2 nd Qtr, FY 2008	2 nd Qtr, FY 2008	TAB B-2-6
<u>Category: Information Technology</u> Combating Computer Software Piracy	FY 2003	1 st Qtr, FY 2008	1 st Qtr, FY 2011	TAB B-2-8

Corrected Weaknesses Identified During All Periods:

<u>Title</u>	<u>Year First Reported</u>	<u>Page #</u>
<u>Category: Supply Operations</u> Independent Logistics Assessment (ILA) Process	FY 2005	TAB B-3-1
<u>Category: Force Readiness</u> Inadequate Procedures for Projecting Training Requirements	FY 2006	TAB B-3-5

UNCORRECTED MATERIAL WEAKNESS(ES) STATUS OF CORRECTIVE ACTIONS

(TAB B-2)

(Also for TABs C-2, D-2, E-2, F-2 and so on, for Systemic Weakness(es) format as well as FMFIA Over Financial Reporting (Material Weakness(es) format)

This attachment should provide a narrative for each uncorrected material weakness identified by the Component for which corrective actions have NOT been completed, regardless of the year of first reporting. Begin each weakness at the top of a new page. Group the narratives contained in TAB B-2 into two subsections: “Uncorrected Weaknesses Identified During the Period” and “Uncorrected Weaknesses Identified During Prior Periods.”

The numbers and letters used below are provided only to assist in your comprehension of this annual guidance and should not appear in your statement of assurance for either the FMFIA Overall Operations or the FMFIA Over Financial Reporting. Only the headings should appear.

Spell out acronyms the first time they are used in each individual material weakness narrative. Deviation from this guidance may require your Component to revise and resubmit the DoD Component statement. A delay due to a required revision has the potential to adversely affect the accuracy of the DoD statement.

Simplify your material weakness status reports to the greatest extent possible. **Each uncorrected material weakness report should be three pages or less. Avoid use of the passive voice, minimize the use of acronyms, and use “bullets” to describe both the actions taken and planned. Narratives should be succinct, void of technical jargon, and easy for the general public to interpret.**

The narratives shall follow the format below. **USE THE HEADINGS AS INDICATED BELOW IN BOLD TYPE IN THE EXACT SEQUENCE.** Do not exclude sections; if they are not applicable, simply note “N/A” following the heading. Do not include the numbers that appear before the headings below; they are included only to assist in your comprehension of this annual guidance. An example of TAB B-2 is shown on pages 28 and 29 in Part I of this annual guidance.

1. **Title and Description of Issue:** Provide title and confine the weakness description to three sentences, if possible.
2. **Functional Category:** Indicate one of the 16 functional categories provided on pages 48-50 in Part I of this annual guidance, e.g., “Force Readiness.” For the FMFIA Over Financial Reporting, identify the functional category and the focus area, e.g., “Financial Reporting, Fund Balance with Treasury.”
3. **Component:** Indicate which Component is reporting the weakness for the FMFIA Overall Operations. For the FMFIA Over Financial Reporting, indicate the Component and the name of the Financial Statement Reporting Entity, e.g., Army Working Capital Fund;

Component name is “Army;” Financial Statement Reporting Entity is “Working Capital Fund.”

4. **Senior Official In Charge:** Identify the name and title of the senior official in charge of ensuring this weakness is resolved according to targeted milestone projections. Per the DoD Instruction 5010.40, Managers’ Internal Control Program Procedures, dated January 4, 2006, page 15, para E2.21, a senior official is a member of the highest level of management or leadership of the agency or Component. The DoD Component Heads will require the addition of a critical element to the performance appraisal plan of the senior official that indicates the effective and timely resolution of the material or systemic weakness.

5. **Pace of Corrective Action:** (For *all* targeted correction dates, Components must show both the Quarter and Fiscal Year, e.g., 1st Qtr, FY 2008, 2nd Qtr, FY 2009, etc.)

Year Identified: Fiscal year of the annual statement of assurance in which Component first *reported* the weakness.

Original Targeted Correction Date: Quarter and fiscal year of the targeted correction date when Component first reported it.

Targeted Correction Date in Last Year’s Report: Quarter and fiscal year of the targeted correction date as it was reported in the Component’s FY 2007 annual FMFIA Statement of Assurance.

Current Target Date: Quarter and fiscal year of targeted correction date per this report.

6. **Reason For Change in Date:** Reason for change in quarter and fiscal year of **Current Target Date** from the **Target Correction Date in Last Year’s Report** as indicated in item #5 above. If applicable, the reason for change should include a brief description of the impact, e.g., cost of delaying weakness. Note: All material weaknesses must list, as the last projected milestone, the validation technique to be used, i.e., validate that weakness is corrected using an audit review or validate correct when the percentage of delinquency is below 2 percent.

7. **Validation Indicator:** Briefly indicate the methodology that Components will use to certify the effectiveness of the corrective action(s) and the projected date that the certification will take place. In addition, indicate the role that the Inspector General, DoD or Component Audit Service will play in verification of the corrective action.

8. **Results Indicator:** Describe key results that have been or will be achieved in terms of performance measures. Performance measures are quantitative and / or qualitative measures that determine the benefits derived or will be derived from the corrective action and the overall impact of the correction on operations. If monetary benefits are determinable, state that information here. **NOTE: Specifically identify one or two defined performance measures or defined results that will be used to determine successful completion of the proposed remedial effort.**

9. **Source(s) Identifying Weakness:** Use the following other applicable sources: (a) MIC Program Evaluation; (b) IG, DoD; (c) Component Audit Service; (d) GAO; (e) Component internal review organization; (f) Component IG; or (g) Other. When audit findings are the source of weakness identification, identify the title, number and date of the document in which the weakness was identified. If the weakness was identified by more than one source, list all identifying sources in order of significance.

10. **Major Milestone to Include Progress to Date:** Use a milestone chart indicating actions taken and actions planned for the future. Separate milestones into three categories: Completed Milestones, (b) Planned Milestones for Fiscal Year 2008, and (c) Planned Milestones Beyond Fiscal Year 2008. List only major milestones in chronological order by milestone completion date with the terminal milestone listed last. Begin each milestone action with an action verb. Provide the quarter and fiscal year that each major milestone is projected to be accomplished. The terminal milestone is the final corrective action, and **should either be or include the validation used to correct the weakness.**

TAB B-2 EXAMPLE

(TAB B-2) UNCORRECTED MATERIAL WEAKNESS(ES) STATUS OF CORRECTIVE ACTIONS

“Uncorrected Weakness(es) Identified During Prior Periods”

Title and Description of Issue: Contract Administration of Service Contracts. There is a significant weakness in administering service contracts which includes ineffective planning for quality assurance requirements and inadequate training. A lack of surveillance plans has resulted in no systematic inspection system or effective documentation of contract performance. Procedures for validating and approving contractor invoices sometimes were inadequate and responsibilities and processes for approving invoices were not properly defined.

Functional Category: Contract Administration

Component: Army

Senior Official In Charge: Mr. Robert Taylor, Principal Deputy, Assistant Secretary of the Army (Acquisition, Logistics and Technology)

Pace of Corrective Action:

Year Identified: FY 2003

Original Targeted Correction Date: 2nd Qtr, FY 2005

Target Correction Date in Last Year's Report: 2nd Qtr, FY 2008

Current Target Date: 2nd Qtr, FY 2008

Reason for Change in Date: N/A

Validation Indicator: The United States Army Audit Agency (USAAA) will review the effectiveness of these corrective actions in resolving the material weakness.

Results Indicator: The Army has addressed every USAAA finding and initiated corrective action.

Source(s) Identifying Weakness: USAAA audit report dated September 23, 2002, “Managing Service Contracts,” Audit Report A-2002-0580-AMA.

Major Milestones to Include Progress to Date:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	Instructed contracting officers to orient evaluators on the specific types of contracts and specific contract links.
Completed	Clarified existing guidance on quality assurance surveillance plans. Recommended to Major Command (MACOMs) that they review guidance on surveillance when performing contract management reviews.
Completed	Issued guidance to require contracting officers to periodically review the Contracting Officer Representative (COR) contract files and provide the review results to the activity director.

B. Planned Milestones for Fiscal Year 2008:

<u>Date:</u>	<u>Milestone:</u>
1 st Qtr, FY 2008	Issue guidance to the acquisition community instructing contracting officers to establish the appropriate responsibilities and limitations for appointment letters.
2 nd Qtr, FY 2008	Validate that weakness is corrected and through audit conducted by USAAA.

C. Planned Milestones Beyond Fiscal Year 2008: N/A

TAB B-3 EXAMPLE

(TAB B-3)

MATERIAL WEAKNESS(ES) CORRECTED THIS PERIOD

(Also for TABs C-3, D-3, E-3, F-3 and so on, for Systemic Weakness(es) format as well as FMFIA Over Financial Reporting Material Weakness(es) format)

Use TAB B-3 to provide a narrative for each material weakness for which corrective actions were completed in FY 2008. Begin each material weakness narrative at the top of a new page. Group information into two subsections: "Identified During the Period" and "Identified During Prior Periods."

For weaknesses appearing in TAB B-3, use the format and data requirements identified for TAB B-2, Item 10, "Major Milestones to Include Progress to Date." Begin each corrective action with an active verb in the past tense. Since this must be a corrective status, all actions must be reflected as "completed" milestones. Otherwise, the weakness cannot be classified as completed, and Component must continue to report it as ongoing in TAB B-2.

TAB B-3 EXAMPLE

(TAB B-3) MATERIAL WEAKNESSES CORRECTED THIS PERIOD

“Identified During Prior Periods”

Title and Description of Issue: Independent Logistics Assessment (ILA) Process. The Navy did not effectively implement the ILA Process; specifically, Program Executive Offices (PEOs) and Systems Commands (SYSCOMs) did not perform a significant number of ILAs, and did not always disclose results or the basis of logistics certifications to Milestone Decision Authorities. Ambiguous language and vague references in the policy documents did not support effective implementation and implied that performing ILAs was optimal. This adversely impacted the Assistant Secretary of the Navy’s (Research, Development and Acquisition) strategic goals of improving business processes and improving warfighter satisfaction.

Functional Category: Supply Operations

Component: Navy

Senior Official in Charge: Mr. John Paul Jones, Deputy Director of Supply and Acquisitions, Navy

Pace of Corrective Action:

Year Identified: FY 2005

Original Targeted Correction Date: 2nd Qtr, FY 2006

Targeted Correction Date in Last Year’s Report: 4th Qtr, FY 2008

Current Target Date: N/A

Reason for Change in Date: N/A

Validation Indicator: All corrective action(s) were certified by an internal review audit.

Results Indicator: Overall, the number of ILAs performed are accurate, and the results or the basis of the logistics certification is disclosed to the appropriate parties for making informed decisions.

Source(s) Identifying Weakness: Naval Audit Service (NAVAUDSVC, NAVAUDSVC Report No. N2000-0027, “Independent Logistics Assessment Process,” June 27, 2000.

Major Milestones to Include Progress to Date:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	Revised Navy acquisition policy to clearly state: (a) whether or not performing independent assessments of logistics is a requirement, and is the basis for logistics certification; (b) the desired outcome of the ILA process, and (c) whether or not use of a Chief of Naval Operations (CNO) – validated assessment process is required.
Completed	Revised ILA policy to: (a) clearly articulate the desired outcome of the ILA process; (b) clarify the full scope of individual implementation procedures which include the overall management of ILAs and all associated responsibilities; (c) clearly define procedures for submitting the ILA implementation procedures for validation; and (d) provide guidelines for development and implementation that ensure timely and effective supportability review and an opportunity for the decision process prior to initial operational capability.
Completed	Revised guidance, which addresses ILAs in detail, to provide additional guidance to SYSCOMS, PEOs, and Program Managers.
Completed	Validated the weakness was corrected through an on-site internal review audit performed by the Naval Audit Service.

TAB C
(PRINCIPAL STAFF ASSISTANTS ONLY)

INSTRUCTIONS FOR THE PRINCIPAL STAFF ASSISTANTS
REGARDING OVERALL OPERATIONS SYSTEMIC WEAKNESS(ES)

*“Overall operations systemic weaknesses” are defined as those weaknesses materially affecting internal management controls that warrant reporting to a higher level for all functions excluding financial reporting. The nine overall operations systemic weaknesses listed below were reported by the Department of Defense in the FY 2007 DoD Statement of Assurance. Of the nine, General Personal Property will be transferred to Financial Reporting in FY 2008. The Principal Staff Assistants are required to report the status of all below listed overall operations systemic weaknesses. However, for GPP, which is being transferred to the Financial Reporting, the weakness status report will state in the overall operations systemic weakness in TAB C, as the last corrective action that, “The reporting status is being transferred to the DoD Senior Assessment Team.” See example of format, pages 35 through 37, Part I of this annual guidance. **Since FY 2007, there is no requirement for DoD Components other than the Principal Staff Assistants to address overall operations systemic weaknesses in their Statements of Assurance unless assisting the Principal Staff Assistants in preparing the systemic weakness status reports.***

Overall operations systemic weaknesses reported in the FY 2007 DoD Statement of Assurance were:

1. Department of Defense Financial Management Systems and Processes – The Department of Defense financial and business management systems and processes are costly to maintain and operate, not fully integrated, and do not provide information that is reliable, timely, and accurate. In addition, the Department has reported this issue as non-compliance with the Federal Financial Management Improvement Act of 1996 and as non-conformance with Section 4 of the Federal Managers Financial Integrity Act of 1982. The estimated correction date is 4th Quarter, FY 2015. (Office of the Under Secretary of Defense (Acquisition, Technology and Logistics) and the Office of the Under Secretary of Defense (Comptroller))
2. Management of Information Technology and Assurance – The Department of Defense information systems are potentially vulnerable to an information warfare attack. In addition, the Department has reported this issue as a “significant deficiency” under the reporting requirements of the Federal Information Security Management Act. The estimated correction date is 4th Quarter, FY 2009. (Office of the Assistant Secretary of Defense (Networks and Information Integration))
3. General Personal Property – The Department of Defense does not currently meet Federal Accounting Standards for the financial reporting of personal property. Documentation for personal property is neither accurate nor reliable. The estimated correction date is 3rd Quarter, FY 2014. (Office of the Under Secretary of Defense (Acquisition, Technology and

Logistics)). This weakness is being transferred to the financial reporting in FY 2008. The Principal Staff Assistant must state as the final corrective action that, "The reporting status is being transferred to the DoD Senior Assessment Team."

4. Personnel Security Investigations Program – The Department of Defense hiring is adversely affected because personnel security investigations are backlogged. The estimated correction date is 4th Quarter, FY 2009. (Office of the Under Secretary of Defense (Intelligence))
5. Real Property Infrastructure – The Department of Defense has not adequately managed the real property infrastructure to halt the deterioration or obsolescence of facilities on military installations. The estimated correction date is 1st Quarter, FY 2008. (Office of the Under Secretary of Defense (Acquisition, Technology and Logistics))
6. Government Card Program – Instances of misuse, abuse, and fraud in respect to purchase and travel card use, and centrally billed accounts have been attributed to inadequate Department of Defense emphasis on proper use of the cards, poorly enforced controls, and lax oversight. The estimated correction date is 3rd Quarter, FY 2008. (Office of the Under Secretary of Defense (Personnel and Readiness))
7. Department of Defense Contracting for Services – The Office of the Inspector General, Department of Defense and the Government Accountability Office, have identified deficiencies in the policy for, and the execution of, procurement for services. The estimated correction date is 4th Quarter, FY 2009. (Office of the Under Secretary of Defense (Acquisition, Technology and Logistics))
8. Verification and Validation of Federal Procurement Data – Instances where information in the Federal Procurement Data System was not verified and validated which caused the Department to make misinformed business decisions. The estimated correction date is 1st Quarter, FY 2008. (Office of the Under Secretary of Defense (Acquisition, Technology and Logistics))
9. Interagency Acquisitions/Potential for Anti-Deficiency Act Violations – Instances where contracting procedures and the use of appropriated funds when acquiring supplies or services with the assistance of other Federal agencies were not properly followed. Problems can potentially cause violations of the Anti-Deficiency Act. The estimated correction date is 4th Quarter, FY 2010. (Office of the Under Secretary of Defense (Acquisition, Technology and Logistics) and the Office of the Under Secretary of Defense (Comptroller))

TAB-3

**EXAMPLE OF
A TRANSFER TO FINANCIAL REPORTING
(FOR PRINCIPAL STAFF ASSISTANTS ONLY)**

(TAB C-3)

UNCORRECTED MATERIAL WEAKNESS STATUS OF CORRECTIVE ACTIONS

“Uncorrected Weaknesses Identified During Prior Periods”

Title and Description of Issue: Valuation of General Personal Property (formerly titled Valuation of General Purpose Equipment). The Department does not currently meet Federal Accounting Standards for the financial reporting of personal property. Documentation for personal property is neither accurate nor reliable. The Department’s inability to accurately report the financial value of personal property is a factor in the Department’s ability to obtain an unqualified audit opinion on its annual financial statements.

Functional Category: Property Management

Component: OSD, OUSD(AT&L)

Senior Official In Charge: Ms. Nancy L. Spruill, Director (Acquisition Resources and Analysis)

Pace of Corrective Action:

Year Identified: FY 2006

Original Targeted Correction Date: 4th Qtr, FY 2017

Targeted Correction Date in Last Year’s Report: 4th Qtr, FY 2017

Current Target Date: 3rd Qtr, FY 2014

Reason for Change in Date: The date was changed to reflect the date that all Military Departments and the Defense Logistics Agency will have asserted that general purpose equipment is ready for audit.

Validation Indicator: The DoDIG and the Military Department’s Audit Agencies will review effectiveness of corrective actions. These audit organizations will employ various audit methodologies to perform their reviews.

Results Indicator: Legacy property and logistics systems are fully integrated with acquisition and financial systems. Corrective actions provide more accurate accounting, improve general ledger quarterly reporting, and result in unqualified audit opinions. Military Department management asserts that general personal property on the balance sheet is ready for audit.

Source(s) Identifying Weakness: IG DoD Independent Auditor's Report on the Department of Defense Fiscal Year 2003 Agency-Wide Principal Financial Statements (Report No. D-2004-036), dated December 10, 2003. This report identified a material reportable condition that exists in the area of Property, Plant, and Equipment.

Major Milestones to Include Progress to Date:

A. Complete Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	DLA identified the universe of general purpose equipment.
Completed	OUSD(AT&L) revised and published the DoD Instruction 5000.64, "Equipment and Administrative Property."
Completed	Completed functional requirements for Defense Property Accountability System (DPAS).
Completed	Published concept of operations.
Completed	Air Force identified the universe of general purpose equipment.
Completed	Navy identified universe of general purpose equipment.
Completed	Established DoD Property Council.

B. Planned Milestones for FY 2008:

<u>Date:</u>	<u>Milestone:</u>
2 nd Qtr, FY 2008	Navy determines values for general purpose equipment.
4 th Qtr, FY 2008	DLA determines values for general purpose equipment.
4 th Qtr, FY 2008	OUSD(AT&L) completes technical refresh of DPAS.

C. Planned Milestones for FY 2008 and Beyond:

1 st Qtr, FY 2009	Air Force determines values for general purpose equipment.
------------------------------	--

3 rd Qtr, FY 2009	Navy assertion package submitted.
4 th Qtr, FY 2009	Army identifies universe of general purpose equipment.
4 th Qtr, FY 2009	Army determines values for general purpose equipment.
4 th Qtr, FY 2009	DLA assertion package submitted.
1 st Qtr, FY 2010	Army assertion package submitted.
3 rd Qtr, FY 2014	Air Force assertion package submitted.
3 rd Qtr, FY 2014	Validate that the weakness is corrected through IG DoD and Military Department's Audit Agencies review of corrective actions.

The reporting status is being transferred to the DoD Senior Assessment Team.

FMFIA “OVER FINANCIAL REPORTING” STATEMENT OF ASSURANCE GUIDELINES

The Heads of the Department of Defense (DoD) Components that prepare stand-alone statements shown in Table 1 on page 8 in Part I of this annual guidance, are required to provide the **Secretary of Defense** a FMFIA Statement of Assurance Over Financial Reporting. This statement must be based on an assessment strictly following the requirements of Office of Management and Budget (OMB) Circular A-123, Appendix A; the Chief Financial Officers Council (CFOC) Implementation Guide; and the DoD guidance entitled, “Annual Guidance For Documenting and Preparing the Statement of Assurance on Internal Control Over Financial Reporting Process” dated October 24, 2007, available on website: <http://www.defenselink.mil/comptroller/micp/index.html>. When assessments of internal controls within the FMFIA Over Financial Reporting disclose material weaknesses, the plans and schedules to correct them will use the same format for the material weakness status reports as provided on pages 22 through 32 in Part I of this annual guidance. **The Head (or principal deputy) of the Component must sign the statement.** This signature authority may not be delegated below the level of DoD Component principal deputy.

The statement will cover the one year period from 1 July 2007 through 30 June 2008, and be effective ***as of June 30th of the fiscal year (FY) 2008.*** If a material weakness is expected to be corrected within the 4th Quarter (Qtr) of FY 2008 but all actions are not completed as of June 30th, the DoD Component Head should report the material weakness as still ongoing.

Each Statement of Assurance submission shall consist of the following:

1. A memorandum, as described on pages 40 through 42 in Part I of this annual guidance shall be **addressed to the Secretary of Defense and signed by the Head or Principal Deputy of the DoD Component.** As the example memorandum on page 42 shows, the FMFIA Over Financial Reporting Statement of Assurance will be presented in separate paragraph(s) on the same memorandum as the FMFIA Overall Operations Statement of Assurance. Therefore, the Component Head will only be required to sign one memorandum regardless of the number of Financial Statement Reporting Entities (FSREs) for which the Component must provide financial reporting assurance. A separate paragraph will provide senior management’s assessment on whether there is reasonable assurance that internal controls are in place, operating effectively, and being used for each FSRE. The level of assurance can be in one of three forms as discussed in the paragraphs below. A Component could have an unqualified assurance on the FMFIA overall operations and a qualified assurance on the FMFIA Over Financial Reporting for the General Fund. In another example, an agency could have a qualified assurance on the FMFIA overall operations, an unqualified assurance for the General Fund and no assurance for the Working Capital Fund. Remember, regardless of the number of FSREs, a separate paragraph should report the assurance level for each FSRE.

a. An Unqualified Statement of Assurance (reasonable assurance that internal controls over financial reporting are effective, with no material weaknesses reported). Each unqualified statement shall provide a firm basis for that position, which the Head (or principal deputy) will summarize in the cover memorandum.

b. A Qualified Statement of Assurance (reasonable assurance that internal control over financial reporting is effective with exception of one or more material weakness(es) noted). The cover memorandum must cite the material weakness(es) in internal control that precludes an unqualified statement.

c. A Statement of No Assurance (no reasonable assurance because no assessments conducted or the noted material weaknesses are pervasive). The Head (or principal deputy) shall provide an extensive rationale for this position.

2. TABs D-1, E-1, F-1, and so on: For each FSRE, provide a list of the titles of all uncorrected and corrected material weaknesses. Use the same format as described on page 43 in Part I of this annual guidance. The numbering of the tabs will begin with TAB D because TAB B is for the material weaknesses of the FMFIA Overall Operations and TAB C is reserved for systemic weakness write-ups by the OSD Component discussed on pages 33 through 37 in Part I of this annual guidance. For example, if the Component has three FSREs and each has material weaknesses that are being reported, TAB D-1 can provide the material weakness information for FSRE #1, TAB E-1 is for FSRE #2, and TAB F-1 is for FSRE #3. Each tab must reflect the name of the FSRE for which it applies. Clearly reporting FSRE's is crucial to obtaining best scores in the scorecard category, "format."

3. TABs D-2, E-2, F-2, and so on (Uncorrected Weaknesses): For each FSRE, provide detailed narrative descriptions of all uncorrected weaknesses including the plans and schedules for the corrective actions. Use the instructions on pages 44 and 45 in Part I of this annual guidance.

4. TABs D-3, E-3, F-3, and so on (Corrected Weaknesses): For each FSRE, provide a brief narrative describing the material weaknesses corrected in the current year, including the most significant actions taken to correct the weakness. Use the instructions on page 46 in Part I of this annual guidance.

An example of the FMFIA Over Financial Reporting Statement of Assurance for the fictitious Defense Aircraft Agency General Fund is shown on page 42 in Part I of this annual guidance.

Examples of Tabs D-1, D-2 and D-3 are shown on pages 43 through 46 respectively, in Part I of this annual guidance.

FMFIA “OVERALL OPERATIONS” STATEMENT OF ASSURANCE WHEN ONE OR MORE STATEMENT(S) OF ASSURANCE “OVER FINANCIAL REPORTING” IS REQUIRED

Sample

MEMORANDUM FOR THE SECRETARY OF DEFENSE (Components must address the cover memorandum to the Secretary of Defense and follow the format for the memorandum as prescribed. If addressed to other than the Secretary of Defense, the memorandum may be returned for revision. Revisions risk delays that could adversely affect the accuracy and timeliness of the Secretary of Defense Statement of Assurance to the OMB, the Congress, and the President.)

SUBJECT: Annual Statement Required under the Federal Managers’ Financial Integrity Act (FMFIA) of 1982

As (title of Component Head or Principal Deputy) of (name of Component), I recognize that the (name of Component’s) management is responsible for establishing and maintaining effective internal controls to meet the objectives of the Federal Managers’ Financial Integrity Act (FMFIA). I am able to provide [the statement must take one of three forms: “an unqualified statement of reasonable assurance” (no material weaknesses being reported); “a qualified statement of reasonable assurance” (one or more material weaknesses being reported); or “no assurance” (no processes in place to assess the internal controls or pervasive material weaknesses that cannot be assessed)] that the (name of Component) internal controls meet the objectives of FMFIA overall programs, administrative and operations, (if qualified) with the exception of (number) material weakness(es) described in TAB B. These material weaknesses were found in the internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of the date of this memorandum. Other than the material weaknesses noted in TAB B, the internal controls were operating effectively and no other material weaknesses were found in the design or operation of the internal controls.

Component’s statement will include the following paragraph only if the Component identified material weaknesses, either in the current fiscal year or past fiscal years:

The [Component] FMFIA overall operations evaluation did identify material weaknesses. TAB B-1 is a list of material weaknesses that still require corrective action and those corrected during the period. TAB B-2 is an individual narrative for each uncorrected material weakness listed in TAB B-1. (Include the previous two sentences if your Component has uncorrected material weaknesses.) TAB B-3 is an individual narrative for each material weakness corrected during the period. (Include the previous sentence if your Component corrected any material weaknesses during the past fiscal year.)

[(The statement must include the following.) TAB A provides additional information on how the (name of Component) conducted the assessment of internal controls for the FMFIA overall operations, which was conducted according to OMB Circular A-123, Management’s Responsibility for Internal Control. In addition, TAB A provides a summary of the significant accomplishments and actions taken to improve Component internal controls during the past year.]

If applicable, the Component will include a separate paragraph stating the level of assurance for each Financial Statement Reporting Entity under the Component Head’s purview. (See Table 3, pages 11 and 12 of this annual guidance.)

In addition, the [name of Component] conducted an internal control assessment of the effectiveness of the [Financial Statement Reporting Entity’s name] internal control over financial reporting for the following implementation area(s): **[Components will list the implementation areas assessed based on the implementation areas listed in TABLE 2, Annual Guidance, page 8 of 50.]** The assessment of the implementation areas was conducted in strict compliance with the OMB Circular A-123, Appendix A, as directed by DoD guidance under the oversight of the Senior Assessment Team, which is maintaining complete records of the assessment documentation. Based on the results of this evaluation, I am able to provide **[the statement must take one of three forms: “an unqualified statement of assurance” (no material weaknesses being reported); “a qualified statement of assurance” (one or more material weaknesses being reported); or “no assurance” (no processes in place to assess the internal controls or pervasive material weaknesses that cannot be assessed)]** that the (name of Component) Financial Statement Reporting Entity’s internal control over financial reporting implementation areas as of June 30, 2008, were operating effectively **[(if qualified “with the exception of (number) material weakness(es) described in TAB D) (or if more than one Financial Statement Reporting Entity (E, F, and so on)).** These material weaknesses were found in the internal controls over the reliability of financial reporting as of June 30, 2008. Other than the material weaknesses noted in TAB D **(or if more than one Financial Statement Reporting Entity (E, F, and so on)),** the internal controls were operating effectively and no other material weaknesses were found in the design or operation of the internal controls over financial reporting for the [name of the Component Financial Statement Reporting Entity].” Areas that are not inside the implementation areas listed above were not assessed. Therefore, I can provide no assurance on areas that are not within the above listed implementation areas for the [name of the Component Financial Statement Reporting Entity].

The Component’s statement will include the following paragraph if the Component identified material weaknesses over financial reporting for one or more Financial Statement Reporting Entities, either in the current fiscal year or past fiscal years:

The [name of the Component Financial Statement Reporting Entity] material weaknesses are described in TAB D. TAB D-1 [or “TAB E-1,” “F-1,” and so on, for each Financial Statement Reporting Entity requires a separate group of Tabs for the material weaknesses], is a list of material weaknesses that still require corrective action and those corrected during the period. TAB D-2 [or “TAB E-2,” “F-2,” and so on] is an individual narrative for each uncorrected material weakness listed in TAB D-1 [or “TAB E-1,” “F-1,” and so on]. **(Include the previous two sentences if your Component has uncorrected material weaknesses.)** TAB D-3 [or “TAB E-3,” “F-3,” and so on], is an individual narrative for each material weakness corrected during the period. **(Include the previous sentence if your Component corrected any material weaknesses during the past fiscal year.)**

(Signature of Component Head or Principal Deputy)

Example
FMFIA “OVERALL OPERATIONS” STATEMENT OF ASSURANCE WHEN ONE
OR MORE STATEMENT(S) OF ASSURANCE OVER “FINANCIAL REPORTING”
IS REQUIRED

MEMORANDUM FOR THE SECRETARY OF DEFENSE

SUBJECT: Annual Statement Required under the Federal Managers’ Financial Integrity Act (FMFIA) of 1982

As Director of the Defense Aircraft Agency, I recognize that the Defense Aircraft Agency’s management is responsible for establishing and maintaining effective internal controls to meet the objectives of the Federal Managers’ Financial Integrity Act (FMFIA). I am able to provide an unqualified statement of reasonable assurance that the Defense Aircraft Agency’s internal controls meet the objectives of the FMFIA overall programs, administrative and operations.

TAB A provides additional information on how the Defense Aircraft Agency conducted the assessment of internal controls for the FMFIA overall operations, which was conducted according to OMB Circular A-123, “Management’s Responsibility for Internal Control.”

In addition, the Defense Aircraft Agency conducted an internal control assessment of the effectiveness of the General Fund’s internal control over financial reporting for the following implementation areas: Fund Balance with Treasury, Accounts Receivable, Operating Materials and Supplies, Real Property and Military Equipment. The assessment of the implementation areas was conducted in strict compliance with the OMB Circular A-123, Appendix A, under the oversight of the Senior Assessment Team, which is maintaining complete records of the assessment documentation. Based on the results of this evaluation, I am able to provide a qualified statement of assurance that the Defense Aircraft Agency General Fund’s internal controls over financial reporting implementation areas as of June 30, 2008, were operating effectively with the exception of the two material weaknesses described in TAB D. These material weaknesses were found in the internal controls over the reliability of financial reporting as of June 30, 2008. Other than the material weaknesses noted in TAB D, the internal controls were operating effectively and no other material weaknesses were found in the design or operation of the internal controls over financial reporting for the Defense Aircraft Agency General Fund. Areas that are not inside the implementation areas listed above were not assessed. Therefore, I can provide no assurance on areas that are not within the above listed implementation areas for the Defense Aircraft Agency General Fund.

The Defense Aircraft Agency General Fund material weaknesses are described in Tab D. TAB D-1 is a list of material weaknesses that still require corrective action and those corrected during the period. TAB D-2 is an individual narrative for each uncorrected material weakness listed in TAB D-1. TAB D-3 is an individual narrative for each material weakness corrected during the period.

Jane Deer
Director, Defense Aircraft Agency

[Below are examples of TAB D-1 (Lists of All Uncorrected and Corrected Material Weaknesses), TAB D-2 (Uncorrected Material Weaknesses Status of Corrective Actions), and TAB D-3 (Material Weaknesses Corrected This Period) which correspond with the example memorandum above on page 42. For instructions on how to complete TAB D-1, D-2 and D-3, see pages 43 through 47 in Part I of this annual guidance.]

Defense Aircraft Agency General Fund

(TAB D-1)

LISTS OF ALL UNCORRECTED AND CORRECTED MATERIAL WEAKNESSES

Uncorrected Weaknesses Identified During the Period:

<u>Title</u>	<u>Quarter (QTR) and Fiscal Year (FY) Targeted Correction Date</u>	<u>Page #</u>
<u>Category: Financial Reporting</u> Accounts Receivable	2 nd Qtr, FY 2009	TAB D-2-1

Uncorrected Weaknesses Identified During Prior Periods:

<u>Title</u>	<u>Year First Reported</u>	<u>Correction QTR & FY Date</u>		<u>Page #</u>
		<u>Per Last Annual Statement</u>	<u>Per This Annual Statement</u>	
N/A	N/A	N/A	N/A	N/A

Corrected Weaknesses Identified During All Periods:

<u>Title</u>	<u>Year First Reported</u>	<u>Page #</u>
<u>Category: Financial Reporting</u> Accounts Payable	FY 2005	TAB D-3-1

Defense Aircraft Agency General Fund
(TAB D-2)
UNCORRECTED MATERIAL WEAKNESSES STATUS CORRECTIVE ACTIONS

“Uncorrected Weaknesses Identified During the Period”

D-2-1

Title and Description of Issue: Accounts Receivable. All costs not captured to appropriate orders. Customer invoiced for incorrect amount of goods or services received. The inability to reconcile invoice with customer orders may lead to misstatement of Accounts Receivable.

Functional Category: Financial Reporting, Accounts Receivable

Component: Defense Aircraft Agency (DAA) General Fund

Senior Official In Charge: Ms. Buck Fawn, Comptroller, Defense Aircraft Agency

Pace of Corrective Action:

Year Identified: FY 2008

Original Targeted Correction Date: 2nd Qtr, FY 2009

Targeted Correction Date in Last Year’s Report: N/A

Current Target Date: 2nd Qtr, FY 2009

Reason for Change in Date: N/A

Validation Indicator: All costs will be captured to projects. Monthly reconciliation of costs to DAA projects will result in variance of less than 5 percent.

Results Indicator: Reduced billing errors and more accurate Accounts Receivable reporting.

Source(s) Identifying Weakness: Control Test results, June 2008

Major Milestones to Include Progress to Date:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	Evaluated current accounting system capabilities for capturing costs.
Completed	Developed preliminary reconciliation process.

B. Planned Milestones for Fiscal Year 2008:

<u>Date:</u>	<u>Milestone:</u>
3 rd Qtr, FY 2008	Develop reconciliation procedures.
4 th Qtr, FY 2008	Issue reconciliation procedures.

C. Planned Milestones Beyond Fiscal Year 2008:

<u>Date:</u>	<u>Milestone:</u>
1 st Qtr, FY 2009	Test procedures for variance.
1 st Qtr, FY 2009	Train employees on new procedures and implement.
2 nd Qtr, FY 2009	Validate that variance is less than 5 percent, during monthly reconciliation of costs to DAA projects.

Defense Aircraft Agency General Fund
(TAB D-3)
MATERIAL WEAKNESSES CORRECTED THIS PERIOD

D-3-1

Title and Description of Issue: Accounts Payable. Requesting Component and Performing DoD Component do not reconcile payables. This may result in financial reporting misstatements.

Functional Category: Financial Reporting, Accounts Payable

Component: Defense Aircraft Agency (DAA) General Fund

Senior Official in Charge: Mr. Buck Fawn, Comptroller, Defense Aircraft Agency

Pace of Corrective Action:

Year Identified: FY 2006

Original Targeted Correction Date: 3rd Qtr, FY 2008

Targeted Correction Date in Last Year's Report: 3rd Qtr, FY 2008

Current Target Date: N/A

Reason for Change in Date: N/A

Validation Indicator: Payables balance is reflected accurately in correct period.

Results Indicator: A benchmark of at least 98% of instances where Requesting Component and Performing DoD Component reconcile payables in the same accounting period. Variances can be explained.

Source(s) Identifying Weakness: Control Tests, May 2008

Major Milestones to Include Progress to Date:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	Implemented process that required reconciliation between Requesting Component's and Performing DoD Component's payables in the same accounting period.

A. Completed Milestones (cont):

Completed	Management represents that reconciliation results in financial reports that are properly classified, described, and disclosed.
Completed	Validated that the weakness is corrected; payables balance is accurate for correct period.

DoD Internal Control Reporting Functional Categories

Group material weaknesses, both uncorrected and corrected, by the DoD functional category designations listed and defined below.

1. Research, Development, Test and Evaluation. The basic project definition, approval, and transition from basic research through development, test, and evaluation and all DoD and contractor operations involved in accomplishing the project work, excluding the support functions covered in separate reporting categories such as Procurement and Contract Administration.

2. Major Systems Acquisition. Items designated as major systems and are subject to the procedures of the Defense Acquisition Board, the Military Services Acquisition Review Councils, or the Selected Acquisition Reporting System. DoDD 5000.1, "The Defense Acquisition System," May 12, 2003, may be helpful when evaluating a weakness for inclusion in this category.

3. Procurement. The decisions to purchase items and services with certain actions to award and amend contracts (e.g., contractual provisions, type of contract, invitation to bid, independent Government cost estimate, technical specifications, evaluation and selection process, pricing, and reporting).

4. Contract Administration. The fulfillment of contractual requirements including performance and delivery, quality control and testing to meet specifications, performance acceptance, billing and payment controls, justification for contractual amendments, and actions to protect the best interests of the Government.

5. Force Readiness. The operational readiness capability of combat and combat support (both Active and Reserve) forces based on analyses of the use of resources to attain required combat capability or readiness levels.

6. Manufacturing, Maintenance, and Repair. The management and operation of in-house and contractor-operated facilities performing maintenance and repair and/or installation of modifications to materiel, equipment, and supplies. Includes depot and arsenal-type facilities as well as intermediate and unit levels of military organizations.

7. Supply Operations. The supply operations at the wholesale (depot and inventory control point) level from the initial determination of materiel requirements through receipt, storage, issue reporting, and inventory control (excluding the procurement of materials and supplies). Covers all supply operations at retail (customer) level, including the accountability and control for supplies and equipment of all commodities in the supply accounts of all units and organizations (excluding the procurement of materiel, equipment, and supplies).

8. Property Management. Construction, rehabilitation, modernization, expansion, improvement, management, and control over real and installed property, and facilities (both military and civil works construction) and includes all phases of property life-cycle management. Also covers disposal actions for all materiel, equipment, and supplies including the Defense Reutilization and Marketing System.

9. Communications and/or Intelligence and/or Security. The plans, operations, systems, and management activities for accomplishing the communications and intelligence missions and safeguarding classified resources (not peripheral assets and support functions covered by other reporting categories). Also covers the DoD programs for protection of classified information.

10. Information Technology. The design, development, testing, approval, deployment, use, and security of automated information systems (using a combination of computer hardware, software, data or telecommunications that performs functions such as collecting, processing, storing, transmitting or displaying information) and other technologies for processing management information. This includes requirements for justification of equipment and software. The DoDD 8000.1, "Management of DoD Information Resources and Information Technology," February 27, 2002, may be helpful when evaluating a weakness for inclusion in this category.

11. Personnel and/or Organization Management. Authorizations, recruitment, training, assignment, use, development, and management of military and civilian personnel of the Department of Defense. Also includes the operations of headquarters organizations. Contract personnel are not covered by this category.

12. Comptroller and/or Resource Management. The budget process, finance and accounting, cost analysis, productivity and management improvement, and the general allocation and continuing evaluation of available resources to accomplish mission objectives. Includes pay and allowances for all DoD personnel and all financial management areas not covered by other reporting categories, including those in connection with OMB Circular A-76, Performance of Commercial Activities, May 29, 2003.

13. Support Services. All support service functions financed from appropriated funds not covered by the other reporting categories such as healthcare, veterinary care, and legal and public affairs services. All nonappropriated fund activities are also covered by this category.

14. Security Assistance. Management of DoD Foreign Military Sales, Grant Aid, and International Military Education and Training Programs.

15. Other (Primarily Transportation). All functional responsibilities not contained in sections 1. through 14., including management and use of land, sea, and air transportation for movement of personnel, materiel, supplies, and equipment using both military and civilian sources.

16. Financial Reporting. Processes, procedures, and systems used to prepare, compile, and generate the Department of Defense's financial statements according to Section 3512 of title 31, United States Code; DoDD 8910.1-M, "DoD Procedures for Management of Information Requirements," June 1998; the Federal Accounting Standards Advisory Board (FASAB); the Department of Treasury Financial Manual, Volume 1: Federal Agencies; the United States Standard General Ledger (USSGL); OMB Circular No. A-136, "Financial Reporting Requirements," June 29, 2007; and DoDI 7000.14-R, "DoD Financial Management Regulation."

PART II

**SCORECARD INFORMATION FOR THE
FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA)
ANNUAL STATEMENT OF ASSURANCE**

FISCAL YEAR 2008

For the Overall Statement of Assurance, there are five categories scored in FY 2008.

- Timeliness
 - Was the statement of assurance received according to the suspense, ahead or behind the suspense date?
 - Were the DoD Component's financial reporting requirements timely?
 - Late submission puts the Department at risk of meeting the Office of Management and Budget's deadlines.
 - Extremely late reports are an indication of poor program execution.
- Format
 - Was the statement of assurance accurate, complete, and easy to read?
 - Was the statement compliant with guidance?
 - Did the Head or Principal Deputy sign the statement and is the statement addressed to the Secretary of Defense?
- Program Execution
 - Does the statement describe evidence indicating that the Managers' Internal Control Program is executed at all levels of the Component?
 - To what extent is the Component using innovative methods to reach all levels of the organization?
 - Does the program execution support a timely submission with an acceptable format and prompt resolution of weaknesses?
 - Is the Component including all subordinate organizations as required?
 - Is there evidence that the Component has received recognition in a FY 2008 bi-annual Check It Campaign Ceremony for "most improved" process due to "checking it?"
- Training
 - Does the statement describe evidence of MIC Program training given at all levels of the Component?
 - What is the extent to which the Component uses innovative methods to reach all levels of the organization?
 - Is the Component sufficiently training all Component personnel?
- Material Weakness Reporting Activity
 - Does the statement describe progress toward correcting identified material weaknesses promptly?
 - Does the statement indicate resolution of all delinquent weaknesses? Delinquent weaknesses are UNACCEPTABLE.
 - Does the statement clearly show that the Component conducted a robust assessment of the internal controls?
 - Is the Component forthrightly reporting weaknesses, especially those issues where the Department is criticized by an outside stakeholder such as the Government Accountability Office (GAO) or the Office of Management and Budget (OMB) for omitting the issue as a material weakness?
 - Has the Component obtained an unqualified opinion with no material weaknesses outstanding?

The tables below describe the criteria used to score the Statements of Assurance.

Timeliness Category	
+3 points	<ul style="list-style-type: none"> Received on or before August 22, 2008 by close of business (COB).
+2 points	<ul style="list-style-type: none"> Received after August 22, 2008 or by COB on September 2, 2008.
+1 point	<ul style="list-style-type: none"> Received by COB September 3, 2008.
-1 point	<ul style="list-style-type: none"> Received after September 3, 2008 or by COB on September 15, 2008.
-10 points	<ul style="list-style-type: none"> Received after September 15, 2008.

Format Category	
+3 points	<ul style="list-style-type: none"> Best in Category – Benchmark product and exceptional in all aspects (Accurate, complete, easy to read, and represents an exceptional model to benchmark).
+2 points	<ul style="list-style-type: none"> No revisions required and not necessary to ask for explanation from Component. <p style="text-align: center;">AND</p> <ul style="list-style-type: none"> Acceptable in all aspects (Accurate, complete, fairly easy to read, and represents a good model).
+1 point	<ul style="list-style-type: none"> Returned for correction or requested Component to clarify any aspect of the statement. <p style="text-align: center;">OR</p> <ul style="list-style-type: none"> Unsatisfactory in at least one aspect (Not accurate, not complete, not easy to read, or does not represent an acceptable model).
-1 point	<ul style="list-style-type: none"> Extensive changes required. <p style="text-align: center;">OR</p> <ul style="list-style-type: none"> Incorrectly stated the opinion, i.e., provided an unqualified statement that should have been qualified, or opinion omitted. <p style="text-align: center;">OR</p> <ul style="list-style-type: none"> Statement is noncompliant in one or more aspects (Component failed to follow provided guidance in preparing statement).

Program Execution Category	
+4 points	<ul style="list-style-type: none"> Component is recipient of FY 2008 Bi-Annual Check It Campaign Award, as evidenced in Statement of Assurance writeup; for “most improved” process due to “checking it.”
+3 points	<ul style="list-style-type: none"> Component reports at least one innovative measure <u>that has not been previously reported</u> to enhance Component-wide program execution. Excludes any Component that scored a (-1 point) in the Material Weakness Category.
+2 points	<ul style="list-style-type: none"> Statement clearly indicates that the Managers’ Internal Control (MIC) Program is executed at all levels (Component-wide program execution).
+1 point	<ul style="list-style-type: none"> Statement has limited evidence of Component-wide program execution.
-1 point	<ul style="list-style-type: none"> No evidence of Component-wide program execution in statement. Statement is over 15 days late (Late submission reflects poor program execution).

Training Category	
+3 points	<ul style="list-style-type: none"> Best in Category – Component reports at least one reported innovative measure that has not been previously reported which enhances training of the Managers' Internal Control (MIC) Program Component-wide.
+2 points	<ul style="list-style-type: none"> Evidence in statement of Component-wide MIC Program training performed for Component managers, MIC Program coordinators, and assessable unit managers
+1 point	<ul style="list-style-type: none"> Statement reflects training for different Component audiences but not all listed for (2 points) score.
-1 point	<ul style="list-style-type: none"> Statement provides no evidence of Component-wide MIC Program training.

Material Weakness Reporting Activity Category	
+5 points	<ul style="list-style-type: none"> 85% or more of weaknesses corrected on time in FY 2008 as targeted in FY 2007 Statement of Assurance. (There must be at least 2 weaknesses corrected.) AND/OR Unqualified opinion with no material weaknesses. OR 70% or more are corrected on time and at least two weaknesses are corrected in advance of target. OR None due for correction but more than two weaknesses are corrected in advance of target.
+4 points	<ul style="list-style-type: none"> 80% to 84% of weaknesses corrected on time. (There is no qualification on the number of weaknesses that must be corrected.) AND/OR Unqualified opinion with any material weaknesses outstanding. OR 60% to 69% are corrected on time and more than one weakness corrected in advance of target. OR None due for correction but at least two weaknesses corrected in advance of target.
+3 points	<ul style="list-style-type: none"> 75% to 79% of weaknesses are corrected on time. (There is no qualification on the number that must be corrected.) OR 50% to 59% are corrected on time and at least one weakness corrected in advance of target. OR None due for correction, but one corrected in advance of due date.

Material Weakness Reporting Activity Category (cont)

+2 points	<ul style="list-style-type: none"> • 60% to 74% are corrected on time. OR • If none due for correction in FY 2007: <ul style="list-style-type: none"> ○ At least one new weakness reported or one weakness reported as corrected in last three years. OR ○ Statement indicates at least two deficiencies found, that do not warrant reporting as material weaknesses and statement describes actions to resolve. (Must use format described in paragraphs on page 20 of Part I.)
+1 point	<ul style="list-style-type: none"> • 50% to 59% corrected on time. OR • If none due for correction during FY 2007 and no new or old weaknesses in last three years, the statement of assurance must indicate at least one deficiency and actions to resolve. (Must include corrective actions using the format in paragraph s., page 20 of Part I.) OR • Regardless of the percentage corrected, Component has one incident where an outside stakeholder has criticized the DoD for omitting a material weakness and the Component subsequently omitted the weakness from the next statement of assurance.
-1 point	<ul style="list-style-type: none"> • Less than 50% of weaknesses corrected. OR • No weaknesses reported as new in past three fiscal years. AND • No weaknesses corrected in past three fiscal years. AND • No deficiencies with corrective actions discussed in statement of assurance. OR • Delinquent weaknesses resulting in a REDUCTION OF TOTAL SCORE as follows: (A component with remaining delinquent weaknesses would receive the next lower score in the total score of this category. For example, a Component who resolved 4 of 4 weaknesses on time would usually receive a (5 points) score. However, if that Component also had one or more delinquent weaknesses remaining open, the total score would be reduced by one color resulting in a (4 points) score.) OR • Regardless of the percentage of corrected on time, the Component has more than one incident where an outside stakeholder has criticized the DoD for omitting a material weakness and the Component subsequently omitted the weakness from the next statement of assurance.